



# Fairfax County Internal Audit Office

Department of Information Technology  
Procurement Card Audit Report  
Final Report

October 2009

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# Executive Summary

Our review of the Department of Information Technology (DIT) procurement cards revealed that there was adequate separation of duties in place, an accurate and timely log of card transactions was maintained, and monthly reconciliations of card transactions were performed. However, we noted the following exceptions where controls needed to be strengthened:

- Four split purchase transactions were not detected by agency controls.
- Five of eight computer purchase transactions tested, with average amounts of \$107,000, did not have adequate documentation on file to evidence receipt of computers by other county agencies.
- A card under an individual's name was not cancelled until ten months after the employee left the county.
- There was no evidence that weekly reviews of card transactions were performed.
- Transfers to reclassify transactions from the clearing account to expenditures occurred over a month past the posting date for two months tested.
- Card limits were not in line with card usage for seven cards.
- Internal control procedure revisions were not approved by the Department of Purchasing and Supply Management (DPSM).

## Scope and Objectives

This audit was performed as part of our fiscal year 2009 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of September 2007 through August 2008 and our audit objectives were to determine if the department:

1. Had developed written internal procedures in accordance with PM 12-02.
2. Followed the county rules and procedures for the use of procurement cards.
3. Had adequate internal control procedures in place and that these procedures were being followed by cardholders.
4. Transactions were reasonable, in line with policy, and did not appear to be fraudulent.

## Methodology

Our audit methodology included a review and analysis of internal control procedures, procurement card expenditures, and related accounting records of the department. Our audit approach included an examination of procurement card expenditures, records and statements; interviews of appropriate employees; and a review of internal policies and procedures. We evaluated the processes for compliance with the county's PM 12-02. Information was extracted from the procurement card management system for sampling and verification to source documentation during the audit; however, our audit did not include an independent review of the system controls. Our transaction testing did not rely on system controls; therefore, this was not a scope limitation.

# Findings, Recommendations, and Management Response

## 1. Split Purchases

There were four instances noted where split purchases were made in excess of the department's card limit for individual procurement cards. One transaction was for the purchase of promotional materials and three transactions were for the purchase of computer equipment for other county agencies related to a computer replacement program. The computer purchases were made with a special use card, but did not comply with DPSM's restrictions which prohibited the purchase amount for any given site from exceeding the card's \$100,000 single purchase limit in one day. The computer split purchases included:

- a. Two transactions totaling \$124,571 for the Department of Planning and Zoning (DPZ) ordered on August 23, 2007, and posted on September 16, 2007;
- b. Two transactions totaling \$109,000 for DPZ ordered on August 23, 2007, and posted on September 17, 2007;
- c. Six transactions totaling \$187,927 for Libraries ordered on March 25, 2009, and posted on March 29, 2009.

Split transactions occur when the original purchase requirement for the same or related goods or services is broken into multiple smaller purchases which are made over a short period of time. Procedural Memorandum 12-02 prohibits split purchases and notes that these types of transactions are usually done to circumvent a card's single purchase or cycle spending limit. Requirements which are divided for other purposes, such as to accommodate accounting needs or to facilitate delivery to separate locations are also considered split purchases.

**Recommendation:** DIT should utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made, they should be clearly documented and approved. Also, procurement card usage should be reviewed to determine if monetary limits need to be modified.

**Management Response:** Staff involved in these purchases will be counseled and the p-card manager will closely monitor future weekly statements. DIT staff will work both with the DPSM and Dell regarding the personal computer replacement program.

## 2. Documentation

Five of ten computer purchase transactions tested did not have receiving documentation on file to evidence receipt of the computers. The average amount of the five transactions was \$107,000. The transactions were related to computers purchased by DIT for other county agencies. The computers were delivered by the vendor to the agencies. Although the transactions were approved by both DIT and the receiving

agencies' management, DIT did not have any documentation on file from the agencies acknowledging receipt of the computers.

In addition to invoices and proper approval, adequate documentation of purchases includes evidence items purchased from vendors were received. Failure to maintain evidence of the receipt of purchases increases the risks of payment for goods not received, payment for erroneous or incomplete orders and theft.

**Recommendation:** DIT should maintain documentation on file to evidence the receipt of all purchases. When purchases are made and delivered to other agencies, documentation acknowledging receipt should be obtained from those agencies.

**Management Response:** DIT acknowledges that it has experienced some difficulty in obtaining receipts on DIT purchased computers that are delivered directly to other departments. In the future, DIT will request that departments outside the Government Center (GC) formally acknowledge receipt of the computers and send vendor receipts. Agencies that do not comply will have their PCs delivered to the GC which will delay deployment. With the PC Replacement Fund being suspended for FY 2010, DIT will ensure that receipts are received beginning with FY 2011.

### 3. Card Cancellation

A procurement card in the name of a county employee was not cancelled in a timely manner after the employee resigned. The employee left in March 2008, but the card was not cancelled until January 2009. The card was used by the DIT after the employee resigned and before it was cancelled. PM 12-02 requires cancellation of an individual name card when the cardholder leaves.

Failure to cancel individual name cards in a timely manner after the cardholders leave increases the risks of unauthorized or fraudulent transactions, reduces the accountability for card purchases and may result in former cardholders being held responsible for use of cards without their knowledge or consent.

**Recommendation:** DIT should cancel individual name cards immediately, when cardholders terminate, in accordance with PM 12-02.

**Management Response:** DIT will coordinate the administrative processes of DIT's human resources and fiscal management divisions to ensure the immediate cancellation of individual named p-card at time of employee resignations. This will include a periodic review to ensure that these cards are issued only to staff members that require them. Cards will be immediately cancelled when the named users no longer require them.

### 4. Weekly Transaction Report Review

There was no evidence to indicate that a weekly review of procurement card usage was performed. Procedural Memorandum 12-02 requires that all agencies review weekly transaction reports for unusual or unauthorized transactions.

Failure to review the weekly transaction reports increases the risk that inappropriate purchases will not be identified in a timely manner.

**Recommendation:** DIT should document the performance of weekly reviews of procurement card transaction reports which contain all items posted to the bank for the prior week.

**Management Response:** DIT will ensure that the p-card program manager or the program manager's supervisor, or both, initial and date the weekly transaction reports to document that a review of each card's activity is being performed.

## 5. Transaction Clearing Accounts

Transfers to reclassify transactions from the department's procurement card clearing account were not made on a timely basis. We found that transfers for two months tested occurred over a month after the posting date.

Procedural Memorandum 12-02 requires that whenever card billing is posted to a clearing account, all charges are to be moved to the appropriate expenditure account at least monthly.

Failure to properly classify procurement card expenses in a timely manner misstates departmental financial reports, increasing the risk of management making decisions based on inaccurate financial information.

**Recommendation:** Transactions posted to a procurement card clearing account should be reclassified to the proper expenditure account on at least a monthly basis in accordance with PM 12-02.

**Management Response:** DIT's p-card program manager or the program manager's supervisor is currently reclassifying expenditures at least monthly but our goal is to perform this task weekly. However, staff levels, which are reduced, must be taken into consideration. Annual financial reporting is accurate.

## 6. Card Limits

An analysis performed on card limitation controls for all of DIT's cards for the period September 2007 through August 2008 revealed that the monthly spending limits were set significantly higher than the actual usage for 7 of 10 cards under agency names. The highest monthly spending totals for six of the cards represented less than 20 percent of monthly credit limits.

The county has limited dispute rights for fraudulent charges on work group cards and agencies are liable for fraudulent charges until such cards are reported to the bank as lost or stolen. Setting the procurement card limits higher than necessary increases the county's exposure in the event the card is lost, stolen or improperly used by a county employee.

**Recommendation:** We recommend DIT review procurement card usage and determine appropriate limits for each procurement card. The limits for each card should then be set accordingly, based on actual usage and needs.

**Management Response:** DIT will perform the recommended review and coordinate with DPSM to reset card limits at appropriate levels based on this review. Cards supporting the PC Replacement program have obvious higher limits based on volume buying and replacement schedules.

## **7. Internal Control Procedures**

DIT was following revised internal control procedures that were never approved by DPSM. As a supplement to Procedural Memorandum 12-02, all agencies are required to establish procurement card internal control procedures that govern card security, use, and accounting specific to their operations. These procedures are to be submitted to the DPSM program administrator for approval. Additionally, there was no documentation of the restrictions on special use cards maintained by the department for card user reference.

Failure to obtain approval for updated departmental internal control procedures increases the risk that operating procurement card procedures might not be in compliance with county policy.

**Recommendation:** We recommend that DIT submit updated internal control procedures to DPSM for approval, in accordance with PM 12-02. DIT should also maintain documentation on file of DPSM's restrictions on special use cards to communicate to card users.

**Management Response:** DIT received comments on an updated draft of its p-card internal control procedures from the DPSM program administrator. We will use these comments to develop a revised draft of our procedures, which we will submit to DPSM for its approval. We will also maintain on file the documentation of the restrictions on special use cards developed by DPSM, and we will distribute this information to the holders of our special use cards.